

The Tragedy of the Commission

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- Fixed 5-6 percent commission
 - ⇒ Commission increases one-to-one with price of house.
 - ⇒ Highly unlikely that time spent on selling houses increases one-to-one with price.

Boston and Minneapolis in 1990

- Cost of housing:
 - Boston: \$200,000
 - Minneapolis: \$100,000
- Productivity of average real-estate agent:
 - Boston: 3.3 houses/agent
 - Minneapolis: 6.6 houses/agent

Boston and Minneapolis in 1980

- Productivity of average real-estate agent:
 - Boston: 6 houses/agent
 - Minneapolis: 7 houses/agent
- Cost of housing
 - Boston: \$100,000
 - Minneapolis: \$100,000
- The tragedy of the commission
 - Real-estate agents in Boston are no better off

Empirical Evidence:

- 282 Metropolitan areas
- In cities where housing prices have increased:
 - 1) More real-estate agents
 - 2) Lower productivity (sales per agent)
 - 3) Real wages are the same

What do real-estate agents do?

- Matching buyers and sellers
- Prospecting
 - door to door canvassing
 - cold calling
 - notepads with realtor's picture
 - calling on FSBOs
 - servicing a "farm"
 - free pumpkins
- Prospecting is of marginal social value
- Fraction of time spent on prospecting increases with number of other real-estate agents.

Do realtors in high cost cities
provide higher "quality" service?

- We compare the same cities over time.

- Use only differences in housing costs due to price of *land*.

- Direct measures of time spent by agents on “useful” activities.

1) Time spent by realtors
selling houses

2) Time spent by realtors
assisting *buyers*

How Much is the Social Waste?

- Total Earnings in 1990: \$16 billion
- Benchmark City is Athens, GA
- Waste is \$8.2 billion

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- Price protection ultimately does not benefit price protectors.